



LEWIS & ELLIS

Actuaries and Consultants

700 Central Expressway South
Suite 550
Allen, TX 75013

972-850-0850

lewisellis.com

September 6, 2022

Green Mountain Care Board
State of Vermont
144 State Street
Montpelier, VT 05602

Re: Blue Cross and Blue Shield of Vermont 2023 AHP Filing (SERFF # BCVT-133316538)

The purpose of this letter is to provide a summary and recommendation regarding the proposed Association Health Plan (AHP) Filing for Blue Cross and Blue Shield of Vermont (BCBSVT) and to assist the Board in assessing whether to approve, modify, or disapprove the request.

Filing Description

1. BCBSVT is a non-profit hospital and medical service corporation. BCBSVT provides coverage to individuals, small and large group employer, Medicare enrollees Vermont.
2. This filing updates the formula, manual rate and accompanying factors that will be used for pricing of AHP products. This filing includes support for key assumptions, such as trend, benefit relativities, administrative costs, and large claim factors.
3. This filing is applicable to Pathway 1 AHP's with coverage years beginning in 2023. BCBSVT currently has one AHP. This filing is projected to affect 1,434 members enrolled in that AHP.
4. The most important component of any AHP's premium is their past claims experience. Group-level premiums for coverage years beginning 1Q 2023, for example, will be based on the most current experience available at the time, if available. For this reason, no AHP's actual premium pursuant to this filing is currently known.
5. The previous filing, approved with modification on May 11, 2021, resulted in an average premium change of -1.3%.
6. A related filing, BCVT-133174900, was previously submitted and withdrawn by BCBSVT. This filing differs primarily in its assumptions regarding unit cost changes. Vermont hospital budgets will be finalized before a final order is issued on this filing, meaning that the rates can be based on the final approved hospital budgets rather than forecasted levels.
7. As initially filed, the average fully insured group will likely experience a premium change of approximately 9.4%¹, or roughly \$63.54 PMPM, itemized below.
 - a. Change to Projected Claims: **+8.6%**
 - b. Change from Projected Pharmacy Rebates: **-0.1%**
 - c. Change to Pediatric Vision and Dental: **-0.1%**
 - d. Change in Administrative Charges: **+0.7%**

¹ The itemized changes are multiplicative and may not add up to the total.

- e. Reserves: **+0.1%**
- f. Mandates and Assessments: **+0.1%**
- g. Additional Items: **+0.1%**

It should be noted that the actual rate change, even averaged across all AHPs, may differ from this level. This is because the filed rating formula incorporates experience which has not yet occurred. If claims are different from current expectations during 2022, this information will flow through to premiums when groups renew their coverage.

Currently, there is only one AHP, and it is large enough that it does not use the manual rate. So, the projected 9.4% rate change is mostly applicable to new AHPs quoted during the next year.

Standard of Review

Pursuant to Green Mountain Care Board (Board) Rule 2.000 Health Insurance Rate Review, this letter is to assist the Board in determining whether the requested rate is affordable, promotes quality care, promotes access to health care, protects insurer solvency, and is not unjust, unfair, inequitable, misleading, or contrary to the law, and is not excessive, inadequate, or unfairly discriminatory.

Summary of the Data Received

BCBSVT provided the proposed methodology used to calculate the AHP premiums for policy years beginning after approval of this filing. The Company provided exhibits and support for each component of the premium development, including trend, administrative costs, contribution to reserves, and risk charge factors, network changes and large claim factors. As most rating factors are shared between this filing and the 3Q 2022 Large Group filing, BCVT-133154621, some supplementary materials provided in that filing were reviewed in relation to the proposed AHP rates.

Filing Analysis

1. *Updated Experience Base:* The projected claims underlying the proposed rates are based on combined AHP, large group, and small group plans with greater than 25 members. The time period used to calculate the proposed manual rate is from November 2020 through October 2021.

It should be noted that the one AHP currently insured by BCBSVT is large enough to be considered “fully credible” for rating purposes. This means its premiums will be based on the actual claims it experiences during 2022. Thus, the large and small group data used to develop the manual rate are primarily relevant for any new AHP’s that might be quoted this year.

2. *Medical Trend Development:* Medical trend varies by plan type due to contracting differences. The table below summarizes the trend assumptions underlying the proposed rates:

Annual Medical Trend – BCBSVT Managed Care				
Category	Facility	Professional	Pharmaceuticals	Total
Unit Cost	7.4%	5.1%	7.3%	
Utilization	2.4%	1.8%	1.9%	
Total Medical Trend	9.9%	6.9%	9.3%	9.0%

Contract Type	Total Medical Trend
BCBSVT Managed Care	9.0%
BCBSVT Non-Managed Care	9.2%

Utilization and Intensity

The experience on the AHP block is not of sufficient size and stability to perform independent trend analysis. BCBSVT has set utilization trends equal to those approved by the Board in their review of the 3Q 2022 large group filing. We believe this is appropriate and do not propose any changes.

Unit Cost

The unit cost trend for medical costs is projected to be 9.3% based on an analysis of the hospital budget increases implemented in recent years as well as other providers in the BCBSVT service area. Unit cost increases for providers outside the BCBSVT service area were derived from the Blue Trend Survey.²

L&E reviewed the confidential support for the unit cost trend that was provided by the Company, and it appears to be reasonable and appropriate. However, we note that the final FY 2023 hospital budgets will be known prior to the Board's order regarding this filing. As such, we recommend that the rates be recalculated based on the actual unit cost increases approved in the hospital budget process.

BCBSVT has assumed that the hospital budget unit cost increases that are approved for FY 2024 will be equal to the average of approved increases for FY 2022 and FY 2023. Given that the current budget increases are the highest ever observed, we do not believe that this two-year average approach is reasonable. We recommend that the assumed future hospital budget increases be based on FY 2022 and not FY 2023.

3. *Pharmacy Trend Development:* As with medical utilization trends, BCBSVT is proposing that rates use the same pharmaceutical trend rates as those approved by the GMCB in the 3Q 2022 large group filings. We believe this is reasonable and do not recommend any changes.
4. *Leverage Adjustments to Allowed Trends:* The Company analyzed allowed trends, as this is the clearest way to view changes in cost and utilization. However, plan liability increases at the paid trend rate, not the allowed trend rate. Therefore, an adjustment was made to the calculated allowed trends to reflect expected paid trends given the mix of benefits enrolled in the program.

The leveraged trend values were determined using the Company's Benefit Relativity models³ by calculating the change in paid claims with and without the allowed trends. The paid trends are summarized in the table below.

² The Blue Trend Survey is a proprietary and confidential dissemination of the BlueCross BlueShield Association.

³ The Company uses the Benefit Relativity models to calculate the impact of cost sharing for each of the plans that they offer.

	Allowed Trends	Paid Trends
Medical	9.0%	10.5%
Rx	9.9%	10.7%
Total	9.2%	10.5%

The methodology of using the Benefit Relativity models to estimate the impact on paid claims with and without the allowed trend is consistent with last year's filing. The approach that the Company used to adjust allowed trends to paid trends is reasonable and appropriate.

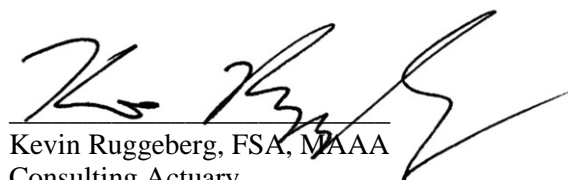
5. *Administrative Costs*: BCBSVT proposes to use the administrative costs that were approved for the 3Q 2022 large group filing. This charge was an average \$54.94 PMPM. We believe this is a reasonable approach and do not recommend any changes.
6. *Contribution to Reserves (CTR)*: The proposed CTR is 1.5% of premium. This is consistent with the Company's request regarding large group business.

We find the inclusion of a 1.5% of premium CTR assumption reasonable.

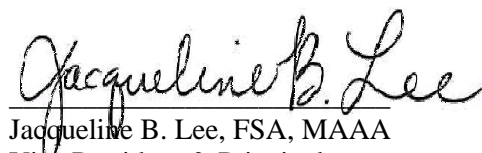
Recommendation

The rates proposed in this filing differ from the approved 3Q 2022 large group rates only in their use of updated information regarding hospital budgets and other unit cost changes, and in the slightly different set of experience used in the calculation of the manual rate. L&E recommends that the filing be approved after being recalculated with final hospital budget information available at the time of the Board's deliberations, and assuming that FY 2024 unit cost increases will mirror FY 2022 unit cost increases.

Sincerely,



Kevin Ruggeberg, FSA, MAAA
Consulting Actuary
Lewis & Ellis, Inc.



Jacqueline B. Lee, FSA, MAAA
Vice President & Principal
Lewis & Ellis, Inc.

ASOP 41 Disclosures

The Actuarial Standards Board (ASB), vested by the U.S.-based actuarial organizations⁴, promulgates actuarial standards of practice (ASOPs) for use by actuaries when providing professional services in the United States.

Each of these organizations requires its members, through its Code of Professional Conduct⁵, to observe the ASOPs of the ASB when practicing in the United States. ASOP 41 provides guidance to actuaries with respect to actuarial communications and requires certain disclosures which are contained in the following.

Identification of the Responsible Actuary

The responsible actuaries are:

- Kevin Ruggeberg, FSA, MAAA, Consulting Actuary at Lewis & Ellis, Inc. (L&E).
- Jacqueline B. Lee, FSA, MAAA, Vice President & Principal at Lewis & Ellis, Inc. (L&E).

These actuaries are available to provide supplementary information and explanation. The actuaries also acknowledge that they may be acting as an advocate.

Identification of Actuarial Documents

The date of this document is September 6, 2022. The date (a.k.a. “latest information date”) through which data or other information has been considered in performing this analysis is September 6, 2022.

Disclosures in Actuarial Reports

- The contents of this report are intended for the use of the Green Mountain Care Board. The authors of this report are aware that it will be distributed to third parties. Any third party with access to this report acknowledges, as a condition of receipt, that they cannot bring suit, claim, or action against L&E, under any theory of law, related in any way to this material.
- Lewis & Ellis Inc. is financially and organizationally independent from the health insurance issuers whose rate filings were reviewed. There is nothing that would impair or seem to impair the objectivity of the work.
- The purpose of this report is to assist the Board in assessing whether to approve, modify, or disapprove the rate filing.
- The responsible actuaries identified above are qualified as specified in the Qualification Standards of the American Academy of Actuaries.
- Lewis & Ellis has reviewed the data provided by the issuers for reasonableness, but L&E has not audited it. L&E nor the responsible actuaries assume responsibility for these items that may have a material impact on the analysis. To the extent that there are material inaccuracies in, misrepresentations in, or lack of adequate disclosure by the data, the results may be accordingly affected.
- L&E is not aware of any subsequent events that may have a material effect on the findings.
- There are no other documents or files that accompany this report.
- The findings of this report are enclosed herein.

Actuarial Findings

The actuarial findings of the report can be found in the body of this report.

Methods, Procedures, Assumptions, and Data

⁴ The American Academy of Actuaries (Academy), the American Society of Pension Professionals and Actuaries, the Casualty Actuarial Society, the Conference of Consulting Actuaries, and the Society of Actuaries.

⁵ These organizations adopted identical *Codes of Professional Conduct* effective January 1, 2001.

The methods, procedures, assumptions and data used by the actuary can be found in body of this report.

Assumptions or Methods Prescribed by Law

This report was prepared as prescribed by applicable law, statutes, regulations and other legally binding authority.

Responsibility for Assumptions and Methods

The actuaries do not disclaim responsibility for material assumptions or methods.

Deviation from the Guidance of an ASOP

The actuaries have not deviated materially from the guidance set forth in an applicable ASOP.